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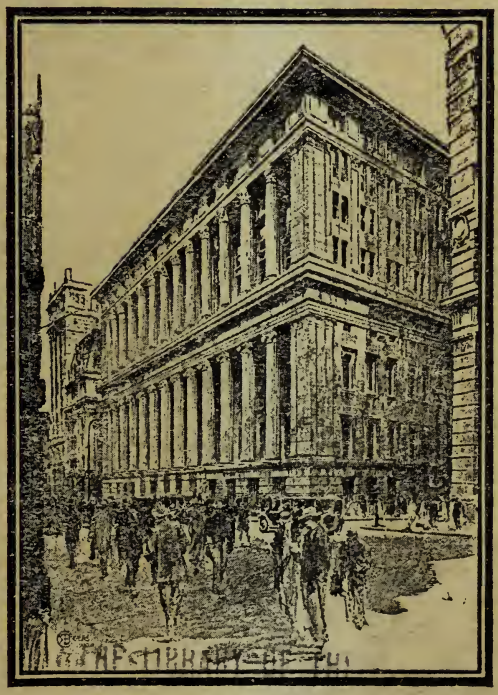
FALL *of* AGRICULTURAL PRICES

By GEORGE E. ROBERTS
Vice-President
THE NATIONAL CITY BANK OF NEW YORK



AUG 27 1924

UNIVERSITY OF ILLINOIS

An address before
THE ACADEMY OF POLITICAL SCIENCE
NEW YORK CITY - NOVEMBER 24, 1922

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FALL *of* AGRICULTURAL PRICES

THE prices of staple farm products were violently affected by the war. The most important direct influence in the case of foodstuffs was that occasioned by the closing of the Black Sea, cutting off the supplies which the countries of Western Europe were accustomed to receive from Russia and the Balkan countries. For the five years next preceding the war these supplies averaged about 225,000,000 bushels of wheat per year, besides important quantities of other farm products. In addition to the interruption of these shipments, the war caused a reduction of the crops in the countries over-run by the armies. These losses increased the demands upon the production of the United States.

The price of wheat in the United States was influenced promptly. The range of No. 2 Red Winter in Chicago in the month of June, 1914 was from 78¾ to 99 cents, while from August 1 to December 31 the range was from 85¼ to $1.33. Other agricultural prices were affected in 1914 but slightly, except in the case of cotton, which declined sharply. The average of the high and low monthly quotations of No. 2 Red Winter wheat in Chicago in the calendar year 1915 was $1.31¼ per bushel; in 1916, $1.38; in 1917, $2.30; in 1918, $2.23; in 1919, $2.53; in 1920, $2.57. In 1920 the highest price was touched in January, when the range was from $2.50 to $3.50 per bushel, but in May the range was from $2.83 to $3.45. In

July the range was $2.29 to $3.00, and it was October before a quotation under $2.00 was made, for the first time in three years. The range in that month was $2.39 down to $1.96¼. The low price for November and the year was $1.58. The low price for the year 1921 was $1.00½, in November; and the average for the year $1.48⅜. The price during the past week in Chicago has ranged from $1.15 to $1.20.

All of the grains followed the general course of wheat, reaching their highest prices in 1920. Corn touched $2.17 per bushel in June and in November sold as low as 67 cents. In October, 1921, it touched 42 cents, and is now back to about 71 cents. All of these quotations are Chicago prices.

Live Stock Prices

HOGS did not reach unusual prices until well into 1916, and the highest price for that year was $11.60 per hundredweight. In 1917 they ranged from $12 to $20, in 1918 from $17 to $20.95, and in 1919 touched the high water mark at $23.60. The exports of hog meats jumped from 442,000,000 pounds in 1913, to 722,000,000 pounds in 1917, 1,500,000,000 pounds in 1918, and 2,000,000,000 pounds in 1919. In 1920 they dropped to 871,000,000 pounds and the price of hogs at the close of 1920 had fallen to between $8 and $9. They are now about $8.00.

Cattle about doubled in price from 1913 to 1919, and from then to the fall of 1921 fell back to about the 1913 prices and in the case of stock cattle in many instances lower, as the central markets were glutted with them. A good recovery has been made in 1922. Sheep followed about the same course as cattle, but have done still better on the recovery, owing in part to the new customs tariff upon wool.

Rise and Decline of Cotton

THE foreign demand for cotton, unlike that for the grains and meats, was unfavorably affected by the war. In the fiscal years from 1910 to 1914 our average exports of cotton were about 9,300,000 bales but from 1915 to 1921 the average was under 6,000,000 bales. Crops, however, were smaller than

in the pre-war period, and down to 1920 great confidence existed in the latent foreign demand.

It was confidently believed that owing to the interruption of distribution during the war, the world was in need of more cotton goods than the available supplies of raw cotton would make, and under the influence of this belief, cotton, which ranged in 1914 from 11¾ to 14½ cents per pound rose to 43.75 cents per pound in July, 1920, from which it dropped to 14.5 in December of the same year, and to the low point on that crop, 10.85, in June, 1921.

The cotton crop of 1921, 8,000,000 bales, was the smallest grown since 1893, and as a result, the price rose sharply in September to above 21 cents per pound, and in no month since has the average of the highest and lowest quotations been below 18 cents. The crop of 1922 is another small one, about 10,000,000 bales, and the price of cotton in New York is now about 25 cents per pound.

Summing Up

THE rise and decline of crop values is summed up by the Department of Agriculture in a table in which the ten principal crops are combined and divided by the total acreage. The average value per acre as shown by this method was $16.49 in 1913, and this was the highest per acre value for all crops ever recorded up to that time. In 1919 the calculation showed $35.74 per acre, and in 1921 it had fallen to $14.52, a decline of approximately 60 per cent, and to a figure about 12½ per cent below the level of 1913.

The Department of Agriculture has made a calculation of the purchasing power of farm products over the list of commodities for which prices are compiled monthly by the Bureau of Labor, omitting the farm products in that list, and basing all figures upon the prices of 1913 as 100. According to this calculation, farm products were relatively lowest in November and December, 1921, when their purchasing power was but 62 per cent of what it was in 1913. From that point it rose to 76 per cent in March, 1922, but in September had declined to 64.

The Farmers' Grievance

THE record of prices of farm products in the United States does not show any previous drop so general and precipitate as that which occurred from the high prices of 1920 to the low ones of 1921, and when the disparity between the prices of what the farmer has had to sell and the prices of what he had to buy is considered, and the further fact that farm indebtedness was greater than ever before, it is not strange that many farmers should feel that as a class they are getting the worst of the situation, probably by the design of somebody, or surprising that resentment should be manifested.

Evidently a widespread belief exists that the decline was deliberately brought about for profit-making purposes, and that the farmers were successfully exploited. It is charged that this policy was carried out in the case of grain and cotton by manipulation of prices on the exchanges, and particularly by "short-selling"—in other words, by contracting to deliver at future dates, grain and cotton which the sellers did not own at the time they made the contracts.

It has been alleged that the scheme to break prices was supported by the action of bankers, including the authorities of the Federal Reserve System, in simultaneously forcing a deflation of credit, requiring farmers and other holders of commodities to sell their holdings and pay their obligations.

The fact that falling prices and credit deflation are features of every business crisis has caused similar charges to be made whenever any serious fall of prices has occurred. The average man is not easily reconciled to a decline in the price of anything that he owns, and when price movements are sudden and violent, he is quite disposed to believe that somebody is to blame.

Findings of the Joint Commission of Congress

THE report of the Joint Commission of Agricultural Inquiry, created by Congress in 1921, and headed by the Hon. Sydney Anderson of Minnesota, a speaker here today, has dealt with this subject at great length, and its findings are conclusive, at least so far as the charge of discrimination against farmers is concerned. After reviewing the testimony taken, the Commission says (Part II, page 117):

"An analysis of the figures in these studies seems to justify the conclusions:

"1. That the expansion of bank loans in rural districts during the period of inflation ending June, 1920, was relatively greater than in the industrial sections, taken as a whole.

"2. That the action of the Federal Reserve Board and the Federal Reserve banks during the 15 months preceding April 28, 1921, did not produce a greater curtailment of bank loans in the rural districts than in the financial and industrial sections.

"3. Credit was not absorbed by the financial centers at the expense of rural communities for the purpose of speculative activities.

"4. That the pressure of the forces of liquidation and depression in the agricultural sections was reflected in a reduction of deposits. This reduction of deposits, particularly demand deposits, was relatively larger in the agricultural and semi-agricultural counties in the United States than in the industrial counties."

The Position of the Banks

THE facts cited by the Commission, that the expansion of bank loans in rural districts during the period of inflation was relatively greater than in the industrial sections, and that the reduction of bank deposits was relatively greater in the agricultural districts than in the industrial districts, go far to explain the drastic conditions of which complaint has been made. With the fall of prices, bank deposits declined, and the banks that were loaned up closely found themselves under the necessity of making energetic efforts to reduce their loans. These efforts in many instances would not have saved them but for the re-discounting facilities afforded by their correspondent banks in the larger cities and by the Federal Reserve banks.

Another reason for the pressure to collect loans which always is manifest in a crisis is that an unusual fall of prices

impairs the credit of many borrowers. A loan against wheat which may have been perfectly good when wheat was worth $3 per bushel might not be good with wheat at $1.50 per bushel. Bankers are under obligations to protect their loans in order to protect their depositors, and if a borrower is unable to supply ample security he must expect to sell the collateral, if need be, in order to make payment at least in part.

Results of Inflation

IT is unfortunately true that the banks of the country came into the crisis of 1920 with too heavy a body of loans, and with insufficient reserves. The strength of every business situation is in reserve resources. If everybody was careful to have ample resources in reserve there would be no crises. Our Federal Reserve system was planned to have ample reserve resources, but all banks came out of the war period very much extended. They did not have the resources in reserve that they were planned to have, and which with a proper regard for security they should have. The Joint Commission of Agricultural Inquiry expresses the opinion that steps should have been taken to check inflation earlier than was done, and this opinion I am bound to say is well supported in the judgment of the banking community.

There is no basis for the charge that the bankers deliberately planned to force deflation of credit or prices. Bankers are the last people to want to disturb values. They suffer inevitable losses in every crisis, first by the inability of customers to meet their obligations; second, by the shrinkage of deposits and loans; third, by the decline of interest rates. Their reluctance to put the brakes on inflation promptly in the spring of 1919, was due mainly to apprehension that unless credit was extended freely during the period in which the armies were being demobilized and while the shift from the war industries to the peace industries was being made, a state of unemployment and depression might ensue. In short, they considered the spring of 1919 a critical time.

But allowing that the banks erred in not taking a stand against further inflation in the spring of 1919, it remains to be said that this is a very different criticism from that which

insists that they never should have taken a stand against inflation at all.

I do not wish to take more time here to discuss banking conditions with relation to the break in prices. The subject is ably and fairly discussed in the Report of the Joint Commission of Agricultural Inquiry. I will proceed with the discussion of market conditions.

The rise of prices in the first place was due to the war demands, and to the inflation which accompanied government financing. The further rise in 1919 and 1920 was caused by the outburst of private buying which followed the removal of restraints which had been imposed in war times, and to the revival of international trade. Nobody knew how long that over-stimulated situation would last, but nothing could be more certain than that as the world settled down to peace conditions, and as industry and trade became more normal, prices would decline.

The Beginning of the Decline

NOW it is a noteworthy fact that the first prices to fall were not those of wheat or cotton, in which future-trading with the accompaniment of short-selling is most common. All kinds of live stock reached the highest prices in 1919; producers suffered heavy losses upon fat cattle in the winter of 1919-20, although the general level of prices did not fall for some months later. The decline of live-stock followed, and undoubtedly was closely related to a great falling off in our exports of meats.

The prices of wheat and cotton were well sustained up to the middle of 1920. The staple textile manufactures, silk, cotton cloth, and woolen goods, began to decline in the spring of 1920. Cotton cloth began to fall before raw cotton did, and wool, which is not traded in on any exchange, fell before cotton did. Shoes, leather and hides, which are not traded in on exchanges, fell before wheat or cotton.

The whole downward movement of prices began with the falling off of retail trade, the buyers' strike as it was called. The torrent of order cancellations by merchants, in clothing, shoes and dry goods, began in May, 1920.

In short, the record shows that instead of the general price decline being inaugurated by short-selling on the exchanges,

the chief commodities traded in on the exchanges were the last to give way. This probably was because of greater confidence in the world's demand for wheat and cotton than in the demand for the other products. These commodities stand at the top of the list of products traded in upon world markets. Our exports of these products constitute a greater share of our production of them than in the case of any other of our staple crops, and for that reason the prices of them in this country are bound to follow in the long run the prices in world markets.

The Story of Wheat

THE situation as to wheat is not quite so clear as the reason for the decline of live stock, because our exports of wheat have continued at a high rate, but let us examine it.

The wheat crop of the world for 1913 was estimated by our Department of Agriculture at 4,127,000,000 bushels. In 1917, with Russia eliminated, it was estimated at about one-half that. approximately 2,000,000,000. Since then, leaving Russia out of the account entirely, it has been estimated at 2,358,000,000 for 1918, 2,571,000,000 for 1919, 2,763,000,000 for 1920 and 2,990,000,000 for 1921, thus showing a gain of about 200,000,000 bushels in each year over the preceding one.

There was a good degree of confidence in speculative circles in the fore part of 1920 that all our wheat and cotton would be wanted at the prevailing prices, and this confidence was reflected in the markets until the new crops began to come forward in the fall months. By that time the general trend of commodity prices was distinctly downward. Wheat and cotton had outstayed the others; instead of leading, they followed. By that time, the crops in the southern hemisphere were sufficiently advanced to give assurance that the yields of Australia and Argentina would be large, and that the supply of wheat would be sufficient to meet all demands before the harvest of 1921.

The Speculator's Service

ABOUT 75 per cent of the wheat crop ordinarily comes on the markets in the first half of the crop year, i.e.; before January 1 following, and at this time the importing countries of Europe have supplies of their own production and are under no

pressure to buy. This means that somebody must stand ready to buy the wheat which the American farmer offers and carry a large part of the crop over into the last half of the year, before it will be wanted for consumption. This is the function of the speculator, and it is a useful function. You may call him an investor if you like the name better, but in either case he renders that service.

If, in the fall months, when marketing is heavy, world supplies promise to be large enough to meet all demands before the next year's harvest, and provide a surplus, a very uncertain future factor figures among the speculator's risks: that is, the size of the next crop. By the following April or May, and perhaps before that, the prospects for the next crop will be a factor in the value of his holdings.

The Outlook in the Fall of 1920

LOOK at the situation confronting a would-be investor in wheat in the fall of 1920: Commodity prices generally were tending downward; there were symptoms of coming depression all over the world; the political and industrial situation in Europe was bad; the exchange situation looked bad; the price of wheat was two to three times the pre-war price, and the supply of wheat promised to be more than sufficient to meet all demands before the next harvest. The investor in wheat must be prepared to carry it into the next crop year. It was considered an uninviting prospect by many dealers; the speculative demand was not sufficient to take the offerings at the high prices, and prices gave way.

The situation is clearer today than it was at that time. The heads of the farm organizations insisted that all our wheat would be wanted before the end of the crop year, and endeavored to pledge their members not to sell for less than $3 per bushel. They were sincere, of course, and thought that the dealers who advised sales were trying to get the farmer's crop away from him for less than it was worth.

Well, the time for argument over what wheat was worth in the fall of 1920 is now over, although the argument goes on; we know now for a fact that there was wheat enough in this country to meet all demands on a declining price scale, and leave

more than 100,000,000 bushels to be carried over into the next crop year.

The Losses on Wheat

IT must not be thought that the farmers alone were mistaken about the price of wheat, or alone suffered by the decline. Not all the speculators were wise enough to judge the situation correctly. I have already stated that 75 per cent of the 1920 crop left the farmers' hands before January 1, 1921. Mr. Julius H. Barnes, than whom there is no better authority upon wheat, has calculated that this 75 per cent was sold at an average price equal to 267 per cent of the average price in 1913. He estimates that the dealers, millers and merchants who took this part of the crop from the farmers suffered a loss aggregating $200,000,000, and that this was more than the aggregate losses of the farmers upon the total crop.

It is a mistake to suppose that the farmers were the only ones who lost by the decline of wheat. Practically everybody who handled any of the 1920 crop of wheat without hedging lost money on it. It is true that some speculators made money by selling short, but whatever they sold somebody else bought—whatever they made somebody else lost—and in that case presumably it was not the farmers. The speculators were divided among themselves, some profiting and others losing.

Meat Packers' Losses

AND so it is also true that in the decline of other farm products, the farmers were not the only losers. The meat-packing industry, as a whole, has yielded practically no profits for the last three years, and the aggregate losses of the five leading companies in the year 1921 were authoritatively stated at over $60,000,000. In any division between big business and little business, the packers would be classed with big business. If any conspiracy was going on in the financial world, they might be expected to hear of it and to escape its effects, but in this instance they have been among the heaviest losers.

Losses Upon Cattle

THE producers of cattle who suffered most severely were those who, tempted by rising prices, ventured deeply into debt for the purchase of stock cattle. They borrowed too much,

and in many cases borrowed unwisely by having their promissory notes sold on the market to strangers, counting upon paying the notes when they fell due by selling new ones. The competition for stock cattle by growers seeking to increase their herds carried prices very high, and the making of so much indebtedness upon that basis created a precarious situation. When settlement day came, new paper could not be sold to take up the old, and that class of cattle was thrown on the markets in excess of the ability of the markets to absorb it without a heavy decline in prices.

Increase of Indebtedness

IT might be supposed, if one had never read history, and did not know much about human nature, that in such a period of rising prices and prosperity as the farmers enjoyed for about five years, they would have reduced their indebtedness of all kinds—paid off their mortgages and cleaned up what they might be owing at the banks. On the contrary, the aggregate farm mortgage indebtedness of the country was very largely increased in this time, the increase in some of the most prosperous states being more than 100 per cent between the censuses of 1910 and 1920. Moreover, although it is represented that the farmers are without adequate banking accommodations, the fact is that the volume of bank loans to farmers in the most prosperous farming states was very largely increased from 1915 to 1920. If I wanted to state in the fewest possible words an explanation of the agricultural distress of the last two years, I would put it in three words, "Too much borrowing." The wholesome fear of debt which was prevalent when some of us were young had been largely dissipated by the rising prices of the last twenty-five years. Men had been led to believe that the way to get ahead was by the use of borrowed money, and that the smaller the margins on which they operated the more rapid their progress would be. The truth is that the number of men able to use borrowed money advantageously always has been comparatively small.

In speaking of the indebtedness of farmers, I do not wish to be understood as representing farmers as a class as more imprudent or reckless than other people, including business men generally. They had plenty of good company, both in borrow-

ing and losing. They did just what most business men did, and the combined effect of this general policy of inflation was to overdo the use of credit, create an abnormal price level and bring about a disastrous reaction.

It is pertinent, however, to point out at this time, when relief for the farmer is proposed through various plans for providing him with more credit, that the chief factor in the plight in which he is now struggling has been too much credit. I do not say this in uncompromising hostility to every plan for providing credit that may be offered, but as a proposition fundamental to the present situation. I do not think that lack of credit is a factor in the present price situation, and I believe that the farmers are now more interested in prices than they are in increasing production. Dr. Henry C. Taylor, Chief of the Federal Bureau of Agricultural Economics, is quoted as commenting upon fears of a future food scarcity by saying, in a recent address, that "the problem before the American farmer is not the holding of the population down to the food supply but the holding of the food supply down to the demands of the population."

Increased Production—Lower Prices

IT seems to be in order, therefore, to suggest that if the plans for placing more credit at the disposal of farmers should prove successful, and the production of the farms should be thereby increased, the natural effect might be to reduce the price-level below what it is at present. On general principles, a lowering of prices resulting from a lowering of costs is something to be desired. It is certainly in the interest of consumers, but it is not urged in their behalf at present. The fact may as well be recognized that it will not bring relief to all farmers, or put an end to the calls for relief. On the contrary, it is probable that the class of farmers who are in deepest distress now would be in still deeper distress if prices went lower as a result of placing increased facilities for production at the command of the more efficient class of farmers.

Indeed, there is some ground for questioning whether that is not one of the pinching factors in the present situation. Mr. Julius H. Barnes, in a recent address, stated that in the 20 years from the census of 1900 to the census of 1920—

The population of the United States increased 40 per cent;
The number of persons engaged in agriculture increased 4 per cent;
The production of wheat increased 58 per cent;
The production of corn increased 35 per cent;
The production of cotton increased 47 per cent;
The production of cattle increased 37 per cent;
The production of hogs increased 68 per cent.

These figures would indicate that some portion of the farming population has been increasing its efficiency, and presumably decreasing the cost of production, and naturally this would make severe competition for that portion of the farm population which is not keeping the pace.

Efficient Competition

I HAVE an editorial clipping from Wallace's Farmer of May 27, 1921, at which time farm products were near the bottom. Wallace's Farmer is published in Des Moines, is one of the leading farm journals of the west, and has not been behind the others in calling for relief for agriculture. The editorial to which I refer presents a calculation showing that the principal commodities which the Iowa farmer had to buy then stood at about 177 per cent of their pre-war prices, while the products which he had to sell stood at about 104 per cent of their pre-war value. The editorial proceeded to say:

> One hundred and four dollars worth of buying power to satisfy $177 worth of normal needs is a situation calculated to make the Iowa farmer think twice before he buys. *Nevertheless, in spite of this temporarily bad situation, so far as the average Iowa farmer is concerned, there are thousands of farmers, who own their own farms and who saved their money during the war, who are better off than they have ever been.*

This comment would seem to indicate that present distress is not due to fundamental conditions, but rather to mistaken judgment in dealing with abnormal temporary conditions. The class of farmers referred to in this editorial belong to the class of men who in every line of business are the leaders and price-

makers, and who make conditions difficult for competitors. Is it possible that they are getting so numerous among the farmers that their competition is felt, and if so, can anything be done about it, or ought anything to be done about it?

The War's Disturbance

I DO not mean to say that the farmer's troubles are all imaginary, or that he does not deserve sympathy and help, so far as it can be given. His troubles are real, and not only are we all obligated to render any possible assistance, but it is to the interest of all that the farmer's recovery shall be as speedy as possible. The farmer, however, is involved in a world situation. The world has been passing through the most terrible experience of its history. Nothing like the devastating and disorganizing effects of the world war has been known since the world's population became what it is, or since society reached the state of modern interdependence. All kinds of business have suffered heavy losses, and, if we stop to think about it, what reason ever was there for expecting anything else? War is not a productive enterprise. Nobody ought to profit by it, and the fundamental reciprocity which is the basis of all prosperous societies makes it certain that no important classes ever can prosper by it. There never was any reason for supposing that the war could usher in a period of great and enduring prosperity. Every business move made upon that assumption was miscalculated.

Industry Unbalanced

I BELIEVE it to be true that the situation is still out of normal balance as between agriculture and the other industries. That the prices of farm products should fall faster in a reaction than the prices of other products and services is natural and has been so in every crisis. The editorial from Wallace's Farmer already referred to says that in 1916, 1917, 1918, and 1919 the purchasing power of what the Iowa farmer had to sell was above the pre-war parity in relation to the things he had to buy. He gained on the up-grade and has lost on the down-grade. Although the farmer and his family do a great part of the farm work themselves, he is economically in the position of a proprietor and employer who always gain as prices rise and lose as prices fall. He cannot have it both ways.

The disturbance of economic relationships was widespread, and it is not soon over. All the factors in the situation are not affected alike. Farm products, constituting our chief exports, and being more dependent upon foreign markets than other products are more directly and quickly affected. Hired labor is not nearly so much of a factor in the cost of farm products as it is the cost of manufactures, coal or transportation. It is very doubtful, when the value of his land and equipment is considered, and his taxes and other fixed expenses are taken into account, whether the farmer can gain anything by curtailing production, as a manufacturer does when prices fall below cost.

The farmer's chief grievance is that the things he has to buy have not come down to correspond with the prices of what he has to sell, and I think it is a just grievance, but I do not believe there is any remedy for it except by the gradual operations of economic law. There are some factors on the other side of the situation which he does not see. House-building fell behind during the war, and the deficit has not been made good. This has made rents very high for city wage-earners, and rent is one of the principal items in their cost of living. High rent constitutes one of the reasons for their resolute resistance to wage reductions.

Labor is the chief factor in the prices of which the farmer complains, and the Labor problem, as presented in the wage disputes and strikes, is a great social problem that nobody can settle offhand. It is as much the farmer's problem as anybody's. The ideal solution is by the development in all classes of such an understanding of mutual interests and mutual obligations as will impel all to join in finding a fair basis of agreement. There is no question that the compensation of the farmer must be brought into just relations with the compensation of workers in the other industries before there can be full and lasting prosperity for anybody.

The European Situation

ONE of the conditions which has affected farm products unfavorably since 1920 has been the lack of speculative interest in the markets. While the farmer has been blaming the speculator and endeavoring to secure laws to curtail his operations,

the want of speculative spirit, the want of courage to buy farm products and carry them for future sale, has been one of the principal factors in the weakness of the markets.

The explanation of this lack of speculative interest is to be found in the uncertainty about foreign conditions. It is possible, having information as to the world's wheat supply, to calculate about how much wheat should be worth, providing Europe will take what it would normally consume. But conditions in Europe are such that it is impossible to say what its buying ability will be over any period in the future. Of course there is speculation, but the speculators want a wider margin of security—in other words, they must buy more cheaply than if they were trading under normal conditions.

Lack of Speculative Courage

IT has been known since the 1st of last July that the wheat crop of Europe is approximately 200,000,000 bushels less than last year, and that the world's supply and demands are very closely balanced this year. If anything should go wrong with the crops of the southern hemisphere which are now approaching harvest, there certainly would be a shortage. Nevertheless the markets have shown but little life. Europe has its own crops to start with—and has been cautious about its buying. In the last two months, however, the price of wheat has gone up about 30 cents per bushel in Europe. The advance in the primary markets of this country, where the farmers sell their grain, has not kept pace with the advance in Europe or at this seaboard, mainly because of the transportation blockade. The primary markets are congested, and the normal competition there for wheat is held in check for lack of facilities for storage and transportation, with the result that wheat throughout the west has been about 10 cents per bushel below the normal parity with the world's price.

This situation has affected the dealers as well as the farmers, perhaps even more, for if the movement had been freer prices at the seaboard might have been lower. But dealers have lost millions of dollars through defaults upon contracts, demurrage charges, etc. Of course buyers take these risks into account in the prices they are willing to pay.

The Plight of the Railroads

HERE we have the farmer suffering from conditions for which he is himself in some degree responsible. He fights the railroads for lower freight rates, without consideration for the fact that the railroads are unable to reduce their operating costs, and that their earnings are inadequate to pay fair returns upon the capital investment. The popular view of the railroads is that they are owned by a few rich bankers who can put their hands in their pockets for any funds that may be needed to enlarge the facilities from time to time. The truth is that the ownership is widely distributed, and the only way new capital can be raised for them is by offering their securities on the public market. Moreover, the earnings are so low, and the menace to the investment is so great, from the employe organizations on the one side and the farmers' organizations on the other, that it is increasingly difficult to raise money for the railroads in the public market. The strongest companies are still able to borrow, by creating obligations that rank ahead of the stock, but a sound business should be able to raise about one-half of its new capital by increasing proprietors' capital, and this the roads are not able to do under present conditions. They cannot go on increasing their indebtedness indefinitely, for the margin of safety is being reduced.

The result is that railroad facilities have not been kept up to the growing needs of the country and railroad congestion follows. Problems of this kind, affecting the farmers' welfare, and the welfare of the entire community, need to be treated in a broad and constructive manner.

Free Play of Economic Forces the Best Remedy

NOTWITHSTANDING all of these perplexing and discouraging conditions, the prices of farm products have gone a long way on the road to recovery in the past year. Given a settlement of political conditions in Europe, so that industry and trade will have a sound basis over there, and the usual international credits can be safely granted, there is every reason to believe that the products of American agriculture will find a ready market at remunerative prices. The number of mouths to be fed in the world is constantly increasing, and there are

no longer any such areas of readily accessible lands as awaited settlement fifty years ago in the Mississippi Valley. The outlook for the farmer is changed in no permanent respect from what it was at the beginning of 1914. In my opinion there is a great deal more danger of too much legislation on the subject than of too little.

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